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SUBJECT: SCENESETTER FOR VISIT OF CODEL BORDALLO

¶1. (SBU) SUMMARY. Delegate Bordallo, Representative Wilson and Representative Sanchez, Embassy Sofia warmly welcomes you and looks forward to a very successful visit. Your visit comes one month after Secretary Rice's consultations in Sofia and two months after Prime Minister Stanishev's meeting with President Bush in the Oval Office. Bulgaria remains a battle-tested ally and a reliable supporter of key U.S. foreign policies. With the completion this year of all implementing arrangements under the 2006 Defense Cooperation Agreement, our already deep bilateral security cooperation enters a new phase. You will visit the joint training facilities at Novo Selo, where this summer we will conduct the largest-ever joint exercises (over 900 Americans and 100 Bulgarians). In Sofia, you will meet with the highest ranking officials in the Bulgarian government. The Embassy and your Bulgarian hosts, the Parliamentary Foreign Affairs Committee and Ministry of Foreign Affairs, are lining up office calls with the Prime Minister, the Defense Minister, the Parliamentary Speaker, the President's Chief of Staff and the Deputy Minister of Foreign Affairs. Throughout your trip, your official Bulgarian host will be Solomon Passy, the Chairman of the Parliamentary Foreign Affairs Committee.

¶2. (SBU) The ruling coalition is now working its way through a very critical report from the European Commission on its progress in fighting corruption and promoting rule of law. You should emphasize to Bulgaria's leadership the importance of immediate action leading to concrete results -- cleaning house, closing banking sector loopholes that facilitate money laundering, convicting corrupt officials -- to regain full credibility with its own public, international partners, and foreign investors. We are also encouraging top Bulgarian officials to make a more compelling public case for the strategic importance for Bulgaria's security cooperation with NATO and the United States to reverse stubbornly high disapproval (over 70 percent) of Bulgarian overseas deployments and the U.S.-Bulgaria joint training facilities. END SUMMARY.

#### Security Cooperation

¶3. (SBU) Bulgaria has quietly sustained its Iraq and Afghanistan commitments, despite public opposition. The government quadrupled forces in Afghanistan last year, and added 50 more this year to a Kandahar mission, bringing its total to approximately 470. In Iraq, Bulgaria agreed to transfer its 152-soldier mission at Camp Ashraf to Camp Cropper at our request, and has committed to remaining in place through 2008. In fall 2007, Bulgaria negotiated an innovative cash payment agreement as part of a USD 3.5 billion Iraqi debt-forgiveness settlement. Bulgaria also has troops deployed as peacekeepers or observers in Kosovo, Bosnia, Chad, Liberia and Ethiopia.

¶4. (SBU) You will visit Novo Selo on Wednesday, 6 August. This is one of four Bulgarian bases identified as a Joint

Training Facility under the Defense Cooperation Agreement. On 8 Feb 2008, DoD secured permission to construct a U.S. Forward Operating Site (FOS) on the Novo Selo Training Area (NSTA). At present, a Temporary Forward Operating Site (TFOS), consisting primarily of tent-structures, has been built on the site to accommodate this summer's exercises. Construction on the permanent site is expected to begin in spring 2009, (with the contractor to be awarded in September 2008.) This construction has been eagerly anticipated by the local community for the economic dynamism it will inject into depressed rural areas. You are scheduled to meet with local government officials and visit the site of one of U.S. Army Europe's humanitarian assistance projects at a kindergarten in the nearby village of Mokren.

#### Partnership in Military Modernization

15. (SBU) The Bulgarian Armed Forces are in a period of transformation and modernization. Total force strength stood at approximately 40,000 in June 2007, but beginning in 2008 the conscription system was abolished and the total number of service members will be reduced to approximately 32,000. Defense spending in 2007 was between 2.4 and 2.55 percent of GDP. While greater as a percentage of GDP than that of many NATO Allies, 2.55 percent of the Bulgarian GDP is a relatively small amount -- only USD 680 million in 2007 -- and the military struggles to simultaneously modernize, professionalize, and deploy on this amount. The 2008 budget has been reduced to 2.1 percent of GDP, with a further reduction likely in 2009.

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16. (SBU) The government looks to us for advice and leadership as it undertakes military modernization, especially on obtaining multi-role fighters for its badly aging and Russia-dependent Air Force. In late July, a DOD-sponsored team of experts met with the Bulgarians to offer advice and assistance in reforming their defense planning systems and reshaping procurement priorities. Ultimately, we expect this process to lead to the purchase of U.S. aircraft. The Bulgarian Land Forces have benefited significantly from the donation of U.S. armored HMMVWs and from their operational experience working and fighting alongside coalition and NATO forces in Iraq and Afghanistan. The Bulgarian Navy actively participates in NATO exercises and will upgrade its capabilities through the purchase of two used Belgian frigates. Our regular refrain with the Bulgarian leadership is to advocate additional resources to increase the deployability and NATO interoperability of Bulgarian forces while avoiding budget-busting (European and Russian) systems that do not add to NATO capabilities and missions.

17. (SBU) Since 1994, we have provided approximately \$150 million in FMF and IMET assistance (around \$10 million per year, a very modest sum given the scale of transformation at stake.) Bulgaria has also received \$18 million through the Coalition Solidarity Fund to help defray the costs of missions in Afghanistan and Iraq, and complement FMF efforts to modernize forces and improve interoperability with U.S. forces. Our Mission Strategic Plan foresees continued support from these funds to achieve parity with NATO standards.

#### Economics and Rule of Law

18. (SBU) Bulgaria became an EU member in January 2007 amidst stern warnings from the EU to continue progress in judicial reform and in the fight against corruption and organized crime. Several streams of EU funding were recently suspended due to concerns over corruption and mismanagement. Bulgaria's economy continues to expand following a 1996 economic collapse, growing more than five percent per year for the past seven years. Still, Bulgaria is the poorest EU member, and while EU accession has brought benefits, it has

also spurred inflation as high as eight percent. Bulgaria's biggest and most urgent challenge remains strengthening the rule of law. While most credible international indices show Bulgaria making incremental progress overall, the suspension of \$765 million in EU funding and the very critical July 23 EC report highlights how grave a threat corruption remains to the health of the Bulgarian state and economy.

¶9. (SBU) U.S. investments are growing; we are the only non-EU country among the top 10 foreign investors during the period 1992-2007. EU membership, a corporate tax rate of 10 percent, and the signing of a treaty to avoid double taxation (which still must be ratified by the U.S. Senate) have all helped pique U.S. investor interest. U.S. firms also help push for an improved business climate, better IPR enforcement (Bulgaria got off the Special 301 watchlist in 2007), and better business ethics. Bulgaria is increasingly attractive to U.S. high-tech firms; we have an active and successful trade promotion effort. Problems remain in some key ministries, especially those dealing with environmental issues, which pose obstacles rather than offer solutions to foreign investors.

¶10. (SBU) Internationally, Bulgaria continues to balance the reality of a bright future integrated with Europe and the United States with the darker legacies of its historical ties as a loyal member of the Warsaw Pact. Bulgarians have romanticized Russia's nineteenth century role in its liberation from the Ottoman Empire. Sizeable cohorts of the population retain fond memories even of the Soviets, and a generation of Moscow-trained and Moscow-leaning officials have yet to make a true attitudinal change, accounting for Russia's 70 percent approval ratings (neck and neck with the EU and outpacing the United States by more than 20 points). Moscow casts a long and deep shadow here given Russian energy dominance (it provides over 90 percent of Bulgaria's oil and natural gas and 100 percent of nuclear energy).

¶11. (SBU) COMMENT: Although the government faces significant challenges on corruption and domestic reform issues, Bulgaria can play a greater leadership role in the region and take more substantial and effective rule of law measures. Our support will encourage the government to build

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its international security capacity, deploy forces overseas, modernize its military, promote energy diversity, fight money laundering and upgrade public integrity and accountability. Your visit to the Joint Training Facilities at Novo Selo will highlight our robust and deepening security relationship and advance our larger strategic cooperation with Bulgaria, on regional stability as well as on rule of law.  
Karagiannis